1995
the first annual report of
Newquest Energy Inc.

NEWQUEST
ENERGY INC.

Corporate Profile

Newquest Energy Inc. is a newly formed, Calgary-based, independent petroleum exploration and production Company whose area of activity is in the Province of Alberta. The company was incorporated September 6, 1994 and completed an initial public offering September 29, 1995 which raised $6,830,000. The Class A and Class B shares trade on The Alberta Stock Exchange under the trading symbols "NQE.A" and "NQE.B".

Annual Meeting

The Annual General Meeting will be held on June 25, 1996 at 10:00 a.m. in the main boardroom at the offices of Code Hunter Wittmann, Barristers and Solicitors, Suite 1400, 700 2nd Street S.W. Calgary, Alberta.

Shareholders are cordially invited to attend the Company's Annual General Meeting, and those unable to do so are requested to complete and return the Proxy Form to the Company's registrar and transfer agent, Montreal Trust Company of Canada.

Cover Legend

Two-dimensional and three-dimensional seismic are the eyes and ears of explorationists searching for oil and gas rich reservoirs. Seismic is a key component, combined with other technologically advanced tools, which Newquest utilizes to determine the best prospects for drilling.

Contents

Abreviations

Apo ....after payout
Bbls ....barrels
Bbls/d ....barrels per day
Bopd ....barrels of oil per day
Bpo....................................before payout
Mmcf/d.....thousand cubic feet per day

Corporate Highlights

As at December 31, 1995

Financial

Working capital	$	5,884,870
Total assets	$	6,628,163
Bank debt		Nil
Capital expenditures	$	667,064
Shareholders' equity	$	6,368,204

Share Capital

Class A Shares	
-outstanding	3,549,000
Class B Shares	
-outstanding	601,040

Land Holdings

Gross Acres	4,320
Net acres	538

Drilling Activities

	Gross	Net
Total wells	5	1.01
Oil wells	2	0.68
Gas wells	2	0.20
Dry & abandoned wells	1	0.13
Exploration success	80%	

Operating

Oil production	
-Bbls/d at year end	35
Gas production	
-Mmcf/d at year end	nil

Newquest at a Glance

"NQE"
The Alberta Stock Exchange
Incorporated September 1994

Initial Public Offering
Closed: September 1995
Raised: $6.83 million

Class A Shares
Started trading: October 1995
Class B Shares
Started trading: January 1996

Operated First Well
A high working interest oil discovery

Exited 1995: 35 Bopd
Production expected to exceed 250 Bopd in second quarter of 1996

Financially Strong
No debt

Message to our Shareholders

We are pleased to present Newquest Energy's first annual report as a public Company for the year ending December 31, 1995. The first year was an exciting period as it saw the transition from that of a private company, incorporated September 6, 1994, to a public company having a broad shareholder base from British Columbia through Ontario. Your Company has enjoyed several significant achievements, including:

- participation in the drilling of five wells during 1995 and 14 wells during the first quarter of 1996;
- an exit 1995 production rate of 35 bopd, with significant increases in the first quarter of 1996 following a successful winter drilling program;
- identification of several exciting exploration prospects to be drilled during 1996;
- significant increases in our undeveloped land inventory, and
- no debt.

From private to public company

Newquest completed the transition to a public company September 29, 1995 when it raised $6.83 million under an initial public offering of shares. The Company's Class A shares began trading on The Alberta Stock Exchange October 20, 1995, followed by the Class B shares trading January 26, 1996.

Pursuant to the terms of the initial public offering, Newquest made a commitment to incur and renounce to the subscribers of the flow-through Class B shares $6,010,400 in flow-through share expenditures. Management committed to spend 50% of the total, or $3,005,200 for the 1995 taxation year and the remainder during the 1996 taxation year. A successful drilling program was established, resulting in $2,521,500 of flow-through expenditures for the 1995 taxation year, or 42% of the flow-through proceeds raised. While sufficient exploration prospects had been identified to meet the 50 % objective for the 1995 taxation year, limited drilling rig availability and poor weather conditions slowed the Company's winter drilling program.

As a result of the 1995/1996 winter drilling program, Newquest exited the first quarter of 1996 with a strong growth in production, cash flow and reserves. We are therefore pleased to advise that the inherent challenges associated with the creation and emergence of a new company have been successfully addressed.

Corporate Strategy

We believe that the Western Canadian Sedimentary Basin offers excellent opportunities for talented junior oil and gas companies to succeed and prosper. We believe that shareholder value can be maximized through exploration and development drilling, and selective acquisition opportunities provided exploration upside exists. We are very pleased to report that Newquest's exploration team has demonstrated early success in identifying and exploiting economic exploration opportunities, and has added substantial value through the "drill bit".

As a foundation for success and growth in a competitive environment, Newquest has established a strict exploration strategy that focuses on:

- oil prospects initially, to ensure early and stable cash flow, while recognizing that the production portfolio must be balanced with gas over time;
- geographic areas that are well understood by management and staff;
- prospects that are proximal to infrastructure, to ensure early cash flow;
- prospects in which the Company may be operator, to control expenditures, revenues and timing;
- the utilization of seismic, as this is critical to effectively realize the maximum potential of many plays, and to reduce drilling risk;
- reservoirs that are of high quality and high deliverability, and
- sound, detailed economic and risk analysis, combined with prudent financial management.

Newquest also recognizes the benefit and need for high working interest projects, where a single discovery will have a significant impact on reserve additions and shareholder value.

With these principles established, Newquest participated in the drilling of five wells during 1995 and fourteen wells during the first quarter of 1996, The Company exited 1995 with 35 bopd production, and expects production from the drilling program ending March 31, 1996 to exceed 250 bopd in the second quarter of 1996.

1996 Activity

Newquest remains in a strong cash position to continue its active drilling program and expects to participate in the drilling of 15 high working interest wells during the remainder of 1996. This program will fulfill the balance of our obligation for flow-through share expenditures, while continuing to establish a sound production base. We will concentrate on developing the land position acquired to date, and continue to evaluate selective area wide farm-ins in our areas of expertise. We will also look at selective acquisition opportunities with drilling upside that will advance our strategy of generating value predominately through exploration. Our dedicated staff have generated, and will continue to generate, prospects and opportunities far beyond our financial resources. It remains our goal to continue to high grade these prospects to concentrate on the best opportunities, thereby maximizing shareholder value.

We would like to acknowledge the excellent working relationship we have with the management and staff of our joint venture partner, Baytex Energy Ltd. and our other industry partners. In addition, we would like to thank our staff, directors, members of the brokerage community and the retail investors who have contributed to the success Newquest has enjoyed to date, and we look forward to sharing continued successes.

On behalf of our management and the Board

T M Shklanka

Taras M. Shklanka, President
Calgary, Alberta
April 22, 1996

Management's Discussion & Analysis

Review of Operations

Newquest was incorporated as a private company on September 6, 1994, and amalgamated with its wholly owned subsidiary 627402 Alberta Ltd. on May 15, 1995. While a private company, Newquest and its subsidiary participated in the drilling of four small working interest exploration prospects, resulting in one oil well (0.13 net), two cased gas wells (0.20 net) and one dry hole (0.13 net). Subsequent to closing the initial public offering and prior to year end, Newquest, as operator, participated with a 55% working interest in an exploration oil prospect at Grand Forks resulting in a new pool oil discovery. Your Company exited its first year with production of 35 bopd.

During the first quarter of 1996, Newquest drilled fourteen wells resulting in six oil wells (2.99 net), two cased gas wells (1.10 net) and six dry holes (2.63 net). Production from the wells drilled to the end of March, 1996 is forecasted to exceed 250 bopd net to the Company in the second quarter of 1996. Additional production increases are expected with the successful completion and tie-in of two gas wells and the pipelining of two oil wells.

	Drilling Results To December 31, 1995		Drilling Results For First Quarter 1996	
	Exploration Wells		Exploration Wells	
	Gross	Net	Gross	Net
Oil	2	0.68	6	2.99
Gas	2	0.20	2	1.10
Dry and abandoned	1	0.13	6	2.63
Totals	5	1.01	14	6.72

Petroleum and natural gas capital expenditures totaled $390,000 for the period from incorporation to December 31, 1995.

Land Holdings

Newquest continues to add to its land position through the acquisition of crown and freehold lands and through farm-in drilling opportunities. The Company's land position has increased significantly since year end to 15,840 gross acres (5,137 net) and 17,440 acres under option, compared to a land position of 4,320 gross acres (538 net) as at December 31, 1995.

Joint Venture

Newquest has entered into a Participation Agreement and a Reciprocal Participation Agreement with Baytex Energy Ltd. Pursuant to the Participation Agreement, Baytex has agreed to offer Newquest the right to participate in up to 50% of Baytex's interest in drillable prospects in Joint Venture Region Two, up to an amount equal to 30% of Newquest's initial public offering. Pursuant to the Reciprocal Participation Agreement, Newquest has agreed to offer Baytex the right to participate in up to 50% of its interest in drillable prospects in Joint Venture Region One, up to an amount equal to 30% of Newquest's initial public offering. Baytex will be the operator of the two Joint Venture Areas until the Participation Agreements terminate. Termination date is the earlier of February 28, 1997 or once the Companies fulfill their obligation to provide the stipulated drillable prospects in the respective joint venture areas. During the first quarter of 1996 Newquest fulfilled its obligation to Baytex under the Reciprocal Joint Venture Agreement.

Environmental/Risk Management

Newquest acknowledges the potential risks to the environment related to its core business activities and strives to ensure that all applicable government regulations and guidelines are met or exceeded. The Company has emergency response procedures in place and maintains insurance coverage to protect the environment and corporate assets.

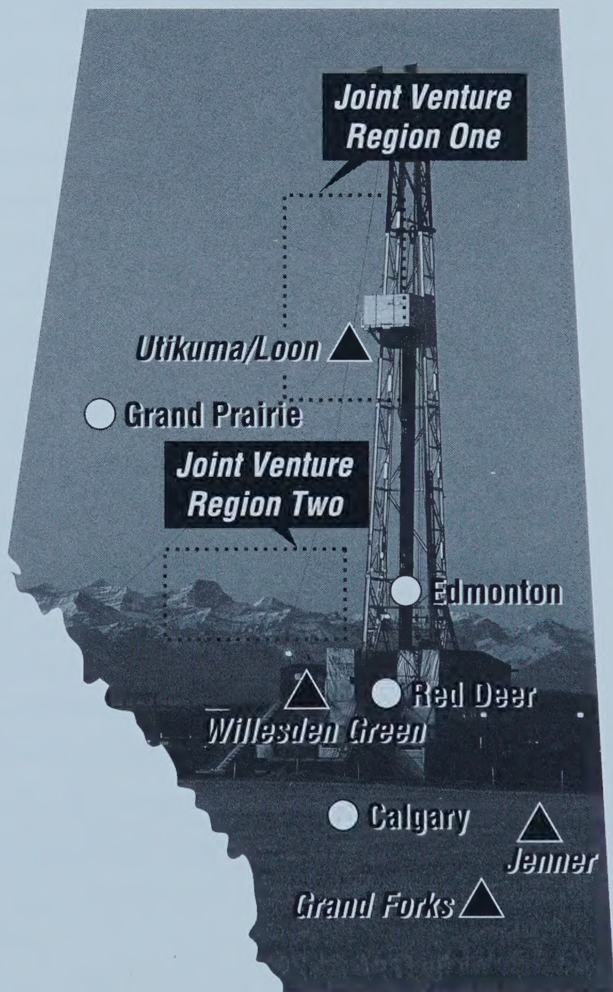
Exploration

Since closing the initial public offering, your Company has participated in the drilling of 15 wells, 14 of which were drilled during the first quarter of 1996. The first project, at Grand Forks, has proven to be very successful. Newquest, as operator, drilled a 55% working interest oil discovery in the Sawtooth formation, which netted 34 bopd production to the Company during December. During the first quarter of 1996 two additional oil wells were drilled on the property with an average 61.88% working interest. A pipeline has been constructed to tie-in two of the wells to processing facilities to accommodate increased production rates. It is anticipated the wells will be producing at increased rates through the pipeline early in the second quarter of 1996.

During the first quarter of 1996, Newquest entered into a multi-well farm-in on lands located in Joint Venture Region One. This program resulted in four oil wells from the Keg River formation with an average 43.75% W.I. Bpo (31.875% W.I. Apo). Newquest has an additional 14,080 gross acres under option within this region.

The Company, as operator, drilled a successful gas well at Jenner with a 60% working interest Bpo (36% Apo) and participated with a 50% working interest in the drilling of a successful gas well at Willesden Green. These wells are presently being completed and are expected to be tied-in and producing over the near term.

Newquest's objective is to focus on internally generated opportunities, and has plans to pursue an aggressive 1996 drilling program. Your Company is well positioned and strongly capitalized to continue its exploration quest.



Financial Statements

The financial statements have been presented on a pre-production basis. All costs, net of revenues, have been included as deferred exploration costs as a component of capital assets. Accordingly, there is no statement of earnings included with the financial statements. Commencing with the first quarterly report to shareholders in 1996, the financial statements will be presented using the full cost method of accounting and statements of earnings and retained earnings will be provided.

Financial Activities

Newquest was incorporated on September 6, 1994, and amalgamated with its wholly-owned subsidiary 627402 Alberta Ltd. on May 15, 1995. The amalgamated Company was capitalized by the issuance of 1,500,000 Class A shares to the founders at a price of $0.20 per share for total proceeds of $300,000. On September 29, 1995 the Company closed its initial public offering, raising a total of $6,830,000. The equity issue was sold in units of $1,000 with each unit consisting of 300 Class A shares and 88 Class B shares. A total of 2,049,000 Class A shares and 381,340 Class B shares were issued for cash at $0.40 and $10.00 per share, respectively. In addition 219,700 flow-through Class B shares were reserved for issue pursuant to the installment agreement. On December 29, 1995 $2,197,000 of outstanding subscriptions were collected and 219,700 flow-through Class B shares were issued. The 601,040 Class B shares are convertible, at the option of the Company, into Class A shares at any time after June 30, 1999 and before June 29, 2001. The number of Class A shares to be issued for each Class B share will be equal to $10.00 divided by the greater of $1.00 and the current market price of the Class A shares at the time of conversion. The conversion will result in a maximum 6,010,400 Class A shares being issued.

Flow-through Share Deductions

Newquest will incur and renounce to the subscribers of the flow-through Class B shares a total of $6,010,400 of qualifying expenditures. Of this amount, $2,521,500 of qualifying expenditures have been renounced effective to December 31, 1995. The remaining $3,488,900 will be renounced effective to the tax year ending December 31, 1996.

Management's Report

The financial statements of Newquest Energy Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this annual report is consistent with that shown in the financial statements.

Management has designed and maintains a system of internal controls to provide reasonable assurance that all assets are safeguarded and to facilitate the preparation of reliable and timely financial statements for reporting purposes. Timely disclosure requires the use of estimates when transactions affecting the current accounting period cannot be finalized or known for certain until future periods. Such estimates are based on judgments made by management using all relevant information known at the time.

External auditors appointed by the shareholders have examined the corporate and accounting records in order to express their opinion on the financial statements. The Audit Committee, consisting of a majority of non-management directors, has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors who have approved the financial statements.

Neil A. Runions, Vice President, Finance

Auditors' Report

To the Shareholders of **Newquest Energy Inc.:**

We have audited the balance sheets of Newquest Energy Inc. as at December 31, 1995 and May 15, 1995 and the statements of changes in financial position for the period from May 15, 1995 to December 31, 1995 and from incorporation, September 6, 1994, to May 15, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1995 and May 15, 1995 and the changes in its financial position from May 15, 1995 to December 31, 1995 and from incorporation, September 6, 1994, to May 15, 1995 in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants

Calgary, Alberta
April 4, 1996

Balance Sheets

December 31, 1995 and May 15, 1995

	December 31, 1995	May 15, 1995
	$	$
Assets		
Current		
Cash and short-term investments	**5,868,821**	153,913
Accounts receivable	**257,144**	–
Other assets	**18,864**	1,367
	6,144,829	155,280
Capital assets (Note 3)	**483,334**	146,087
	6,628,163	301,367
Liabilities		
Current		
Accounts payable and accrued liabilities	**259,959**	1,367
Shareholders' Equity		
Share capital (Note 4)	**6,368,204**	300,000
	6,628,163	301,367

Approved by the Board

Neil A. Runions
Director

Raymond A. F. Wilkinson
Director

Statements of Changes in Financial Position

For the period May 15, 1995 to December 31, 1995 and from incorporation, September 6, 1994 to May 15, 1995

	December 31, 1995	May 15, 1995
	$	$
Net Inflow (Outflow) of Cash Related to the Following Activities		
Financing		
Issue of shares	**6,830,000**	300,000
Share issue costs	**(578,066)**	–
	6,251,934	300,000
Investing		
Capital assets (Note 3)	**(520,977)**	(146,087)
Changes in non-cash operating working capital items	**(16,049)**	–
	(537,026)	(146,087)
Net Cash Inflow	**5,714,908**	153,913
Cash Position, Beginning of Period	**153,913**	–
Cash Position, End of Period	**5,868,821**	153,913

Notes to the Financial Statements

For the period May 15, 1995 to December 31, 1995 and from incorporation, September 6, 1994 to May 15, 1995

1. Incorporation and Amalgamation

Newquest Energy Inc. (the "Company") was incorporated under the laws of the province of Alberta on September 6, 1994. 627402 Alberta Ltd. ("627402") was incorporated on October 5, 1994. 627402 was owned initially by the initial shareholders of the Company, and became a wholly-owned subsidiary of the Company on May 15, 1995 when the Company issued 975,000 of its Class A shares to acquire all of the shares of 627402. On May 15, 1995, the Company filed Articles of Amalgamation to amalgamate with its wholly-owned subsidiary, 627402. The business combination has been accounted for as a pooling of interests. Under this method of accounting for a business combination, the assets, liabilities, capital and revenues and expenditures of the two companies are combined at their original recorded amounts as if the two companies had been combined since incorporation.

2. Significant Accounting Policies

Basis of presentation

The Company's activities during the period from date of incorporation to December 31, 1995 are related to exploration for and development of petroleum and natural gas properties. Such activities are considered to be in the pre-production stage. All costs associated with such activities, net of revenues, have been included as deferred exploration costs as a component of capital assets (Note 3). Accordingly, there is no statement of earnings included with these financial statements. The ultimate recovery of the Company's investment is dependent upon the discovery of petroleum and natural gas reserves in commercial quantities. All deferred costs will be transferred to the Company's full cost pool when production at commercial levels is attained.

Petroleum and natural gas operations

Once commercial production is achieved, the Company will follow the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring for and developing petroleum and natural gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs will include land acquisition

costs, costs of drilling.both productive and non-productive wells, geological and geophysical expenditures, well equipment and certain other overhead expenditures related to exploration.

Capitalized costs, including tangible well equipment, will be depleted using the unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by management and reviewed by an independent reserve engineer.

Gains or losses on the sale or disposition of petroleum and natural gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates.

The Company will annually apply a "ceiling test" to capitalized costs to ensure that such costs do not exceed future net revenues from estimated production of proven reserves, using prices and costs in effect at the Company's year end, and the costs of unproven properties less impairment. Future net revenues will be calculated after deducting general and administrative costs, financing costs and income taxes.

JOINT VENTURES

Substantially all of the Company's exploration and development activities are conducted jointly with others, and accordingly the financial statements reflect only the Company's proportionate interest in such activities.

FLOW-THROUGH SHARES

The Company's initial public offering included, in part, the issue of flow-through shares. Under this financing arrangement, shares are issued at a fixed price and the resultant proceeds are used to fund exploration and development work within a defined time period. The exploration and development expenditures funded by flow-through arrangements are renounced to investors in accordance with the appropriate tax legislation. Petroleum and natural gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when expenditures are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUTURE SITE RESTORATION AND ABANDONMENT COSTS

Once full commercial production is achieved, the Company will make a provision for future site restoration and abandonment costs, based on the unit-of-production method. The provision will be included in depletion, depreciation and amortization in the statement of earnings.

3. CAPITAL ASSETS

	December 31, 1995	May 15, 1995
	$	$
Deferred exploration costs		
Petroleum and natural gas properties	**130,722**	128,390
Well equipment	**74,514**	–
Production and administrative costs	**362,833**	18,756
Oil and gas revenues, net of royalties	**(31,429)**	–
Interest income	**(88,661)**	(1,059)
	447,979	146,087
Office furniture and equipment	**35,355**	–
	483,334	146,087

Petroleum and natural gas properties are presented net of $183,730 of income taxes relating to income tax deductions which have been renounced to the Company's shareholders (Note 4).

4. Share Capital

Authorized

Unlimited number of Class A shares

Unlimited number of Class B shares

	December 31, 1995		May 15, 1995	
	Number of Shares Issued	Amount $	Number of Shares Issued	Amount $
Class A shares				
Beginning of period	1,500,000	300,000	–	–
For cash as initial private capital	–	–	525,000	105,000
For shares of 627402	–	–	975,000	195,000
Issued for cash	2,049,000	819,600	–	–
Share issue costs	–	(69,368)	–	–
End of period	3,549,000	1,050,232	1,500,000	300,000
Class B shares				
Beginning of period	–	–	–	–
Issued for cash	601,040	6,010,400	–	–
Share issue costs	–	(508,698)	–	–
Tax benefit renounced relating to flow-through shares	–	(183,730)	–	–
End of period	601,040	5,317,972	–	–
Total share capital		6,368,204		300,000

i. Under a prospectus dated August 18, 1995, the company issued to the public a total of 6,830 units, each unit consisting of 300 Class A shares and 88 "flow through" Class B shares.

4. Share Capital (continued)

ii. Class B shares may be converted (at the option of the Company) at any time after June 30, 1999, and before June 29, 2001, into Class A shares. The fraction is calculated by dividing $10 by the greater of $1 and the then current market price of the Class A shares. If conversion has not occurred by the close of business on June 29, 2001, the Class B shares become convertible (at the option of the shareholder) into Class A shares. Effective on August 31, 2001, all remaining Class B shares will be deemed to be converted to Class A shares.

Share options

During the period, the Company granted options to acquire 340,000 Class A shares of the Company at $0.75 per share, exercisable over a five year period and expiring at various times to October 16, 2000. All of these options remained outstanding at December 31, 1995.

Flow-through shares

The Class B voting shares were issued as qualifying flow-through shares for income tax purposes. As at December 31, 1995, $414,180 of the proceeds have been expended on qualifying oil and gas expenditures. The tax benefit of $183,730 has been recorded as a reduction of share capital and of petroleum and natural gas properties.

5. Related Party Transactions

The Company has entered into a Participation Agreement and a Reciprocal Participation Agreement with Baytex Energy Ltd. ("Baytex"), a shareholder company. Pursuant to these agreements, which terminate no later than February 28,1997, the Company is obliged to offer Baytex up to 50% of its interest in a sufficient number of drilling prospects in a designated region pursued by the Company, up to an amount equal to 30% of the gross proceeds of the initial offering of shares. Baytex is obliged to offer the Company up to 50% of Baytex's interest in a sufficient number of drilling prospects in a designated region pursued by Baytex which would enable the Company to spend up to 30% of the gross proceeds of its initial public offering.

6. Commitments

The Company has an obligation to make the following future minimum lease payments on various operating leases.

1996	$ 47,300
1997	$ 34,400

Board of Directors

Taras M. Shklanka
President, Chairman of the Board

Neil A. Runions
Vice President, Finance

Norbert P. Kloster
Vice President, Finance, Baytex Energy Ltd.

Raymond A.F. Wilkinson
Retired Businessman

Officers & Key Personnel

Taras M. Shklanka
President, Chairman of the Board

Neil A. Runions
Vice President, Finance

Gregory G. Turnbull, Secretary
Partner, Code Hunter Wittmann

Stanley S.Y. Lui
Geophysical Manager

Bruce K. Shepard
Exploration Manager

James Podruski
Geological Consultant

Julie Dykstra
Office Manager

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T2P 3K4

Evaluation Engineers

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T2P 3E8

Registrar and Transfer Agent

Montreal Trust Company of Canada
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Calgary, Alberta
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Exchange Listing

The Alberta Stock Exchange
Stock Symbols: NQE.A
NQE.B

Executive Offices

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c/o the Executive Offices
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